

ARTICLE APPEARED

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LOS ANGELES TIMES

1 April 1987

Damage Severe in Marine Spy Case

Soviets Reportedly Read Embassy Messages, Learned Names of Contacts

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WASHINGTON—A Marine spy ring at the U.S. Embassy in Moscow has enabled the Soviet Union to intercept and read virtually all the embassy's coded communications to Washington for as long as a year, sources close to the espionage case said Tuesday.

The Soviets also used the access to embassy offices given them by the guards to obtain the identities of virtually every Soviet contact for American intelligence agents in Moscow during that period, those sources said.

The U.S. Embassy's communications with Washington were falling into Soviet hands at the time of last October's summit meeting between President Reagan and Soviet leader Mikhail S. Gorbachev in Iceland, the sources said.

"We still do not have secure communications out of Moscow today," said one official, who asked not to be identified.

Almost overnight, these discoveries have turned what was once viewed as a routine security breach at the Moscow embassy into an American intelligence disaster of the first order, knowledgeable officials said.

Worse Than 1985 Case

Sources said the damage from the Marine case is now regarded as much worse than that inflicted by CIA turncoat Edward Lee Howard, who gave an array of CIA secrets to Moscow before defecting to the Soviets in 1985.

Howard's disclosures led the Soviets to execute at least one American contact in Moscow. But in the latest espionage incident, said one government official who has been briefed on the case, the Marine guards "gave them access to the names of every American contact" in the Soviet Union.

"A lot of things we attributed to Howard may actually have come

out of this," that official said. "They virtually shut down our intelligence operations in Moscow."

Almost four months after the Marine Corps quarantined Sgt. Clayton J. Lonetree and nearly a week after Cpl. Arnold Bracy was jailed on suspicion of espionage, the damage has not been contained.

"That . . . embassy is one radiating antenna," an official said, referring to the likelihood that Soviet agents laced embassy offices with listening devices.

So tenuous is the situation that Secretary of State George P. Shultz may be forced to use the coded radio on his government jet to send messages to the White House when he flies to Moscow this month for preliminary arms-control talks, one source said.

State Department spokeswoman Phyllis Oakley said Tuesday that U.S. officials "expect to have the secure communications by the time of his trip" on April 13.

But one official called that prospect highly unlikely, saying it would require the embassy to replace most of its existing communications gear in less than two weeks. News accounts have stated that all embassy communications now are being handled by diplomatic couriers.

An assessment of the Marine spy case was given to Reagan and a "furious" Vice President George Bush late last week. Bush, a former CIA director, was reliably said to be urging a "top to bottom" review of U.S. counterspy measures at embassies and within the U.S. intelligence network.

Threat Was Not Seen

Officials last summer discovered Marine guard Bracy in the midst of sexual relations with a Soviet woman who worked at the embassy. Yet they failed to permanently remove him from guard duty or to recognize the affair as a security threat.

Bracy was demoted from sergeant to corporal for the violation of security rules Aug. 21, but he did not leave guard duty or Moscow until Sept. 18. American officials did not link Bracy's indiscretion to espionage even after Lonetree was taken into custody in December, one source said.

The sources said Bracy was found with the Soviet woman in the apartment of an unnamed U.S. attaché at the embassy. The woman has been identified by U.S. officials as a KGB agent.

Another female KGB agent who reportedly offered sexual favors to induce Lonetree into spying, former embassy employee Violetta Seta, was once crowned "Queen of the Marine Ball" at an embassy function, one source said. Marine officials were unable to confirm the report.

Term of Service

Lonetree served at the embassy from September, 1984, to March, 1986.

It was learned that the Justice Department has rejected a suggestion by White House National Security Adviser Frank C. Carlucci to extend immunity from prosecution to the two Marines as a way of achieving an immediate and complete assessment of intelligence damage at the Moscow embassy.

Carlucci raised the idea of immunity at the recommendation of Clair George, deputy CIA director for operations, and Barry Kelly, a CIA veteran who is now an intelligence expert with the National Security Council staff under Carlucci. A A

Secretary of Defense Caspar W. Weinberger ordered in 1982 that no immunity be given to military personnel in national security cases without first obtaining Justice Department approval. That order followed a military court's ruling that

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an Air Force lieutenant could not be court-martialed on espionage charges because Air Force investigators had promised him "no prosecution" for a full account of what he had done.

Clean Sweep Likely

Faced with clear and growing evidence that U.S. officials ignored security lapses in Moscow, the White House now appears likely to demand a clean sweep of the State Department's procedures and staff for embassy security around the world.

It had been reported previously that embassy officials had dismissed alarms that had been triggered by KGB agents within the embassy after being told by Marine guards that the security system was malfunctioning.

The Senate Intelligence Committee and the State Department were reported Tuesday to have warned U.S. Ambassador to Moscow Arthur A. Hartman more than a year ago of the need to thwart concerted Soviet efforts to penetrate the Moscow embassy.

But in a cabled reply to Shultz, titled "Countering Counterintelligence," Hartman was reported to have dismissed the warnings as overblown.

Earlier Differences

As recently as last Friday, American experts still differed over the extent of damage to U.S. security caused by the Soviet penetration of embassy offices.

In a closed briefing of the Senate Intelligence Committee, a senior CIA official indicated that Soviet spies probably had not "gotten into the agency's space" within the embassy, making it unlikely that coded communications equipment and U.S. intelligence data had been completely compromised.

But on Tuesday, a number of U.S. officials dismissed that assessment outright.

"I'll tell you this," one source familiar with the briefing said. "If the guards gave KGB-trained operatives access to the area, they could get in and out without being detected. There are sophisticated ways of doing this."

American experts are now confident that that is exactly what occurred, several sources said.

Two officials said the Soviet communications breach went back at least to the weeks before the U.S.-Soviet summit in Iceland, where Gorbachev is widely viewed as having scored a public-relations coup over Reagan. One official called it "plausible" that the Soviets learned of U.S. plans for the summit by intercepting embassy messages to and from Washington.

Another source said the Soviet monitoring is believed to have gone back to last March, when Marine investigators say Bracy and Lone-tree last gave the KGB access to the embassy grounds.